Dolmen Daily

DOLMEN STOCKBROKERS

Tuesday, 13th January 2009

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IRISH PAPERS TODAY

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(Irish Times)

Waterford unions discuss future with potential buyers
(Irish Independent)

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(Irish Independent)

UK PAPERS TODAY

Land of Leather latest victim of credit crisis
(The Independent)

Spain hit by public finance warning
(FT)

Chinese exports suffer biggest drop in a decade
(Daily Telegraph)

DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	0.4%	-2.6%
BP	-1.9%	-3.2%
CRH	-5.6%	5.8%
E.ON	0.9%	-2.4%
HP	-1.4%	1.9%
IL&P	7.7%	71%
INM	-8.3%	4.8%
J&J	-1.2%	-2.5%
JPMorgan	-4.1%	-21%
Microsoft	-0.3%	0.2%
Paddy Power	-2.1%	-3.9%
Vodafone	-0.5%	0.5%

Market View — **Analyst :** Stephen Taylor

Equity markets continued their downward trend yesterday falling for the fourth straight day as concerns over declining economic activity and corporate earnings persist. Dow Jones component Alcoa kicked off earnings season after the US close last night reporting its first loss in six years as demand and prices for aluminium plunged during the quarter. The company also confirmed that it was cutting 15,000 jobs world wide. We expect this trend of large cap corporates announcing significant job cuts over the coming months to continue which will have the obvious negative impact on economic activity. There is little in the way of positive catalysts to turn the market around this week however the weakness has provided an excellent opportunity to buy into the defensive stocks that we currently like including BP, Microsoft, Aryzta, McDonalds and Johnson & Johnson. Our short calls on BMW, Thomson Reuters and Wolseley have performed well over the past week and we continue see further declines in their share prices given their exposure to the current downturn.

Tesco : Buy — **Current Price** (350p) **Price target** (400p) **Analyst :** Stephen Taylor

Tesco has issued a solid trading statement for the 7-week period to January 10th. The group reported a 2.5% rise in UK same store sales excluding fuel that was slightly ahead of market expectations for a 2.4% increase. While the rise in turnover over the period is at the slowest pace since the early 1990s we believe it is a strong performance given the current difficulties facing the UK economy. Overall group sales increased by 11.6% which beat estimates for 11.5% growth boosted by a 32.7% increase in international sales. Tesco generates c. 28% of revenue from overseas with an increasing focus on emerging markets which will help to insulate the group from the current slowdown. Tesco's expansion into the US is also progressing well with its Fresh & Easy sores seeing double digit growth an impressive performance in the current environment. Tesco remains our top pick in the UK retail sector. We believe the company will continue to outperform as the UK economic environment remains weak and consumers trade down. Tesco will also benefit from its international exposure where sales growth remains strong. Overall despite the weak operating environment Christmas trading updates from the main UK retailers have been slighter better than expected.

Financials : — **Analyst :** Oliver Gilvarry

Tomorrow is the last day of trading for HBOS before the official takeover by Lloyds TSB after the final hurdle was passed as an Edinburgh judge approved the deal. On the 19th of January the new shares paid to HBOS shareholders as part of the takeover commence dealing on the London Stock exchange. Since the open offer by both banks were almost entirely taken up by the UK Government due to lack of demand by shareholders, HM Treasury will own c. 43% of the new bank. The new merged bank will have a dominant position in the UK market with a number one position in mortgages, credit cards, personal loans, household insurance and savings. We will release a detailed note on the new group once it starts trading next week.

Elsewhere, JPM were due to release Q4 and full year earnings on the 21st of January, but that has now been moved forward to the 15th of January. While it is not clear if this is a positive or negative, JPM continues to have the strongest capital positions of its peer group in the US.

Tullow Oil : — **Current Price** (707p) **Price target** (900p) **Analyst :** David Dunk

Tullow has released results of the Giraffe-1 well in the Butiaba region of Tullow's Ugandan exploration block. The well has discovered a reservoir of excellent quality containing over 38 meters of oil. Data from the well and seismic tests indicate that the well is in communication with the nearby Buffalo prospect. Following the results at Giraffe, the company is expected to fast-track the commercialisation of the Ugandan licenses. Tullow is currently seeking financing for development of its Jubilee field in Ghana, which has being guided to be completed by the end of the quarter. Tullow remains our preferred pick in the exploration sector with a price target of £9.

Elan : — **Current Price** ($8.03) **Price target** ($10.00) **Analyst :** David Dunk

Elan has announced that the company is reviewing strategic business alternatives. The company has hired Citigroup Global Markets to assist in advising with this task. The company has stated that a range of alternatives being considered could include minority investments, strategic alliances, a merger or a sale. Today's announcement follows recent speculation that the company may be a target from a bid from Pfizer. M&A activity in the pharmaceutical sector is likely to increase in the coming months due to a lack of depth in developing pipelines of some of the major drug makers. Tysabri is the main asset belonging to Elan to be sought by potential suitors. Elan's Tysabri partner Biogen has the option to purchase Tysabri in the event of an Elan takeover. This will make a potential takeover more complicated. We intend to release an in-depth review of Elan as well as updates to our recommendations later this week.

Taylor Wimpey : **Analyst :** Stephen Taylor

UK house builder Taylor Wimpey has issued a trading update for the full year ending 31/12/08. In the UK the company said that it had completed 13,394 homes during the year down from 20,690 last year of which 21% were affordable housing. The group pointed out that market conditions remained weak during the year with house price declines of 16%-19%. The level of unsold completed homes at the end of the year was 1,138 a reduction of 44% at the end of the first half of the year. In the US, the company completed 5,421 homes down from 6,740 in 2007 with an average price of $313,000 down from $349,000. Taylor Wimpey had previously indicated that it had seen signs of stability in the US during the second quarter of 2008, however financial events in the second half of the year had seen a 'detrimental' impact on activity. In relation to its debt position, Taylor Wimpey reduced its net debt position (before taking into account £200m of adverse currency movements) to £1.55bn a reduction of over £300m since the first half of 2008. As outlined in December, the company continues in discussions with its debt holders and the group has managed to defer the test of its covenants until 31/03/08. Taylor Wimpey's statement today highlights the continued deterioration in UK and US housing markets. We remain cautious on the sector and would advise clients to avoid companies within the sector.

Aryzta : Buy **Current price** (€21.80) **Price target** (37.00) **Analyst :** Oliver Gilvarry

Glanbia has issued a statement this morning outlining a cautious outlook on 2009 as the global economic downturn impacts demand. This follows on from a strong 2008 which saw EPS growth of approximately 17%. Meanwhile, Northern Foods has issued its third quarter interim management statement. Group underlying sales increased 3%, with a year to date increase of 3.5%. Northern Foods has reiterated guidance for the full financial year, noting the defensive traits of the food sector. Premier Food has also issued a full year trading statement this morning. Full year group sales are up 9%, with second half sales ahead by 10%. The company is confident that it is well positioned to operate in the current economic climate. Today's statement supports our view that diversified large scale operators in the food sector like Kerry and Aryzta are best placed to prosper in the current environment.

Ryanair : Buy **Current price** (€3.23) **Price target** (€3.45) **Analyst :** Edward Keeling

Air France has agreed to pay €323m for a 25% stake in Alitalia, ahead of Deutsche Lufthansa. Alitalia will operate as a new company from Wednesday. Air France is now entitled to 3 out of 19 of Alitalia's board seats, and 2 out of 9 seats on the executive committee.

German Stimulus Package **Analyst :** Oliver Gilvarry

Last night the German Government agreed to spend €50bn over the next 2-years in its second attempt to ease the effects of the current recession. The package includes lower health insurance payments, investments in schools and roads, a reduction in the lowest income tax rate and €100 check for each child. A protective umbrella for non-financial companies of circa €100bn will be used to guarantee loans to support business during the downturn.

This fiscal stimulus package follows a €32bn package announced in November and in total equals 1.6% of GDP. This is the largest fiscal package in Europe so far, but is lower than the 2.8% of GDP the rumoured $775bn US fiscal package will be. With Germany having a savings ratio of 14% of disposable income, the highest in the Euro-Zone, any consumer driven recovery in Europe will required the German public to begin spending. It will take a number of months before the effects of the €82bn fiscal package will be felt in the Euro-Zone.

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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,641	-1.7%	12.7%
FTSE	4,426	-0.5%	-2.1%
Dow Jones	8,474	-1.5%	-3.4%
S&P	870	-2.3%	-3.7%
Nikkei	8,414	-4.8%	-5.0%
Stoxx 50	2,452	-1.4%	-1.7%

Sector Performances

Sector	Index	1-Day	YTD
Construction	210	-3.7%	-0.4%
Technology	158	-2.5%	1.7%
Oil & Gas	278	-2.5%	2.2%
Financials	158	-0.8%	1.0%
Retail	190	-2.3%	3.5%
Food & Drink	234	-0.5%	0.1%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	37.6	-7.9%	-17.9%
Copper	148.9	-4.6%	1.3%
Gold	820.9	-3.9%	-7.1%
Silver	10.8	-5.0%	-5.5%
Wheat	569.8	-9.5%	-7.7%
Cattle	82.9	-0.2%	-3.6%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/$	1.336	-0.8%	5.0%
€/£	0.902	1.5%	5.2%
£/$	1.482	-2.2%	-0.3%
$/JPY	89.21	-1.3%	1.9%
€/JPY	119.22	-2.1%	6.7%
€/SFR	1.489	-0.7%	0.6%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	163.7	-6.3%	-5.3%
High Yield	965.3	2.6%	-4.7%
Financials	110.4	6.0%	-4.3%
BoI	286.7	8.9%	17.8%
AIB	205.0	-0.5%	2.3%
RBS	93.5	-4.8%	-26.3%

Money Market Rates

Rate	EUR	UK	US
Overnight	2.2%	1.2%	0.1%
3-Month	2.7%	2.6%	1.3%
1-Year	2.3%	1.7%	1.0%
2-Year	2.4%	2.2%	1.3%
5-Year	3.0%	3.0%	2.0%
10-Year	3.6%	3.5%	2.4%

Date	Company	Region	Event
13/01/2008	Game Group	UK	TRADING
13/01/2008	Hilton Food Group	UK	TRADING
13/01/2008	Premier Foods	UK	TRADING
13/01/2008	Tesco	UK	TRADING
13/01/2008	Taylor Wimpey	UK	TRADING
14/01/2008	Punch Taverns	UK	INTERIM
15/01/2008	Carrefour	FR	FY SALES
15/01/2008	HMV Group PLC	UK	TRADING
15/01/2008	Assoc. British Foods	UK	Q1
15/01/2008	Home Retail Group	UK	INTERIM
15/01/2008	Intel	US	Q4
16/01/2008	Anlgo Irish Bank	IE	EGM
20/01/2008	Cairn Energy	IE	TRADING
20/01/2008	JD Weatherspoon	UK	TRADING
20/01/2008	Bank of America	US	Q4
20/01/2008	IBM	US	Q4

Date	Event	Region	Estimate
13/01/2008	Trade Balance	US	-$51.5B
14/01/2008	Euro-Zone Ind. Prod	EC	n/a
14/01/2008	MBA Mortgage Applications	US	n/a
14/01/2008	Import Price Index	US	-5.40%
14/01/2008	Advance Retail Sales	US	-1.20%
15/01/2008	ECB Interest Rate	EC	2.00%
15/01/2008	PPI	US	-2.00%
15/01/2008	Initial Jobless Claims	US	-540k
15/01/2008	Philly Fed	US	-35
16/01/2008	CPI ex Food & Energy	US	1.90%
16/01/2008	Total Net TIC Flows	US	$286.3bn
16/01/2008	Industrial Production	US	-0.80%
16/01/2008	Michigan Confidence	US	58.9
20/01/2008	UK CPI	UK	-0.10%
20/01/2008	German ZEW	GE	-45.2

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